STATE OF MAINE
PUBLIC UTILITIES COMMISSION

January 23, 2004

ORDER

VERIZON-MAINE
Request for Approval of Rates for
Daily Usage Files Service

Docket No. 2002-612

Welch, Chairman, Diamond and Reishus, Commissioners

I. SUMMARY

In this Order, we adopt rates for Verizon's Daily Usage File ("DUF") service.

II. PROCEEDURAL HISTORY

On December 5, 2002, we opened this proceeding to investigate Verizon-Maine's request for approval of rates for daily usage files (DUF) service, a wholesale unbundled network element provided by Verizon pursuant to the Telecommunications Act of 1996. Pine Tree Networks was granted intervenor status but did not actively participate in the litigation.

The Commission Advisory Staff held several case conferences and Verizon responded to discovery. During a January 30, 2003 conference call, Verizon explained how the DUF cost issues related to the Wholesale Tariff cost studies and the Commission's TELRIC decision.

The first hearing in this matter was held on March 20, 2003. At that hearing, Verizon's witnesses could not answer many of our questions regarding the cost study. Verizon later requested, and was granted, the opportunity to file supplement testimony to address many of our concerns. A second hearing was held on August 13, 2003.

On December 19, 2003 the Hearing Examiner issued a report. The report approved in part Verizon's DUF cost study but required changes to the study inputs for staffing, the number of messages, and the estimate of the forward-looking cost of the computers used to process the billing information.

On January 13, 2004, Verizon filed Exceptions to the Examiner's Report. In its Exceptions, Verizon argued that the Hearing Examiner had erred by reducing Verizon's investment in computers used to provide the DUF service through the application of a "current-to-book" ratio to mainframe computers.

III. BACKGROUND

DUF is an optional Verizon wholesale service that that provides competitive local exchange carriers (CLECs) with detailed records of interLATA local and toll usage each business day. The service is available to CLECs that purchase unbundled switching from Verizon as well as CLECs that resell Verizon Maine's message rated services and intraLATA toll. CLECs use the detailed information concerning customer calls, such as call duration and destination, to manage their billings and collections. At the discretion of the CLEC, DUF files are sent to them via Electronic Data Interface (EDI) System or by cartridge tape. The files are sent daily on business days only (i.e., typically five days per week as holidays are excluded).[1]

Verizon submitted a cost study for DUF which identifies the costs Verizon associates with providing a CLEC with daily access to billing service files.[2] The costs Verizon seeks to recover with the DUF charge are primarily computer-related costs associated with processing and transmitting call records.[3] Verizon proposes to charge $0.001010 per billing record sent to the CLEC, the sum of $0.000993 for recording and processing and $0.000017 for transmission via the EDI.[4] For CLECs choosing DUF delivery via cartridge tape, Verizon proposes to charge $15.97 per tape.[5] These proposed DUF service charges apply only to CLECs that choose to purchase billing records on a daily basis; CLECs may choose to obtain the information contained in the DUF records on monthly basis, which Verizon-Maine plans to continue providing to CLECs without charge.[6]

IV. ANALYSIS

Verizon asserts that its proposed costs and rates for DUF were calculated utilizing a methodology that complies with our Orders in Docket No. 97-505.[7] During the course of these proceedings, Verizon has made several minor changes and corrections to its original computations in response to questioning by the Advisors and to questions directed to its witnesses from the bench.[8]

---

[1] 4-24-03MEDUFCostStudy_Revised.xls: *Verizon Maine, Revised Filing Daily Usage File (DUF) Cost Study: 2003—2005 (Cost Study)*, Tab 1 – Overview,

[2] Id.

[3] Id.

[4] Id. at Tab 2, Total Costs, cells J22 and J31.

[5] Id.

[6] Dean Test. at 5.

[7] Id. at p. 2. See also, Meacham Test. at 4.

[8] Meacham Test. at 4-8 presents a discussion of the changes and corrections made.

Verizon's model develops DUF related costs by:

1. Identifying the number of people who will be involved in providing support to the CLECs;[9]

2. Multiplying these staffing requirements by loaded labor rates to obtain the labor costs, and[10]

3. Dividing this labor cost by the number of estimated DUF messages.[11]

While we generally support the overall method chosen by Verizon, we disagree with and correct several of the specific assumptions made by Verizon.

A. DUF Volumes

One of our concerns with Verizon's methodology stems from the fact that the number of estimated DUF messages used in step 3 was based upon DUF message volumes from 2001. Since that time, however, there has been a substantial increase in the amount of local competition and thus we are concerned that the volumes used by Verizon do not accurately reflect current volumes. To address this concern, Advisory Staff requested that Verizon provide one week's worth of current record extracts in order to determine actual annualized volumes for the 2003 year. Verizon responded with the following:

> The total number of Verizon North DUF record counts for the week of Monday, August 18 through Friday, August 22, 2003:

	Resale		**UNE-P**	
New England	4,241,800		9,977,185	
New York	4,015,464		105,852,959	
Total Verizon-North	8,257,264	**+**	115,830,144	**=**
	124,087,408			

This number annualized (x 52.2 weeks/year) becomes 6,477,632,698. We find this more recent data to be a better source for estimating DUF record volumes on a going-forward basis. Thus, we used the updated annualized 6,477,632,698 value to adjust Verizon Maine's cost calculations in the following manner:

---

[9]Cost Study, Tab 5.5 - CLEC SUPPORT BACKUP and Tab 3—Inputs, lines 56 –60.

[10]Cost Study, Tab 4.1F WCCC-CLEC SUPP.

[11]*See* file 4-24-03MEDUFComparison, tab Comparison Worksheet, lines 29-32, 34-37 (printed).

1. The 6,477,632,698 value was placed in cell F24 of *Cost Study* Tab 5.3A VZ EAST ANNUAL DUF RECORDS;

2. Verizon-Maine's assumed growth rate of 1.01% was placed in cell E24 of the same Tab of the cost study;

3. The Goal Seek tool of Excel was then used to determine what annual growth rate would be required to reach a message volume of 6,477,632,698 in the year 2003 starting from Verizon-Maine's assumed message volume of 6,044,028,457 in year 2001;

4. The growth rate derived from this exercise is 1.03284914492141. This value was then used in the formulas found in cells E19 to H19 and cells E23 to H23 of Tab 5.3A;

5. The formulas in cells G23 to K23 and cells G25 to K25 of Tab 3—Inputs were then changed so that they would use the values derived in cells E19 to H19 and cells E23 to H23 of Tab 5.3A.

As a result of this change, the charge per billing record sent to the CLEC decreased from $0.001010 to $0.001001. The charge for recording and processing decreased from $0.000993 to $0.000985 and the charge for transmission via Electronic Data Interface (EDI) System decreased from $0.000017 to $ 0.000016.

B. Use of Embedded Costs

We also disagree with Verizon's use of embedded rather than current computer costs in calculating the DUF service costs.[12] In recent years, computer prices have declined dramatically while processing power has increased. Thus, because most of the recording/processing cost per record/message is associated with computer use,[13] reliance on embedded cost data rather than current cost data results in DUF servicing costs that are higher than then they ought to be.

In defense of its use of embedded computer costs, Verizon argued in its prefiled testimony and at the hearing that the trend in reduction of computer processing costs per unit of investment has been more than offset by the rapidly expanding development of more and more complex applications designed to

[12]Meachum Test. at 24, response to question 1.

[13]Compare the Computer and Software Investment Costs found in cell F10 of *Cost Study*, Tab 2—Total Costs, with the Total Recording and Processing Costs w/ COH and GRL found in cell J22 of the same Tab.

utilize these faster and faster computers. Thus, Verizon claimed that there is no reason to apply a Current-to-Booked ratio to the General Purpose Computer Corporate book investment based on a faulty expectation that forward-looking computer processing costs for any given application will be lower tomorrow than they are today.[14]

Our review of the record in this proceeding has failed to turn up any evidence offered by Verizon to support the hypothesis that the costs of software for the provision of billing information have been increasing. Furthermore, to the extent that any increases have occurred, such increases would have been reflected in Verizon's pricing indexes, as software costs are capitalized. In fact, as was pointed out in the hearing of August 13, 2003, usage billing information has been provided to interexchange carriers for a long time and has been used internally by telephone companies for quite some time to enable billing for local and intraLATA toll calls.[15] Arguably then, the software used for the collection and dissemination of DUF service records to CLECs is not markedly different, or more complex, than what has been already developed for the dissemination of usage billing information to long distance carriers and for internal use.

In its Exceptions, Verizon argued for the first time that mainframe computers and desktop PCs should receive different accounting treatment. Verizon claimed that the mainframe computers it uses to compute DUF records have not experienced a downward trend in cost and therefore it is inappropriate to apply the current-to-book cost ratio. Verizon cited to p. 25 of Verizon witness Meacham as supporting its assertion.

We have reviewed Mr. Meacham's testimony and do not find any evidence that mainframe computer costs have not decreased or should be treated any differently than desktop PCs. The Meacham testimony cited by Verizon does not address Verizon's premise regarding mainframes; it addresses Verizon's arguments concerning software v. hardware. In addition, if we were to adopt Verizon's approach for purposes of calculating DUF, we would need to recalculate the rates for all UNEs which depend on computers for any part of their function – essentially every UNE and associated non-recurring cost – because our current TELRIC rates were calculated using one cost index for both mainframe and desktop PCs. We do not believe such an undertaking is necessary or warranted by the facts presented in this proceeding.

For these reasons, we believe that application of a Current-to-Booked ratio to the General Purpose Computer Corporate book investment is a sensible adjustment to make to Verizon's costing methodology. We also believe that proper costing methodology does not permit the application of current

---

[14] MeachumTest. at 24, response to question 1.

[15] *See* Tr. 8/13/03 at 34-35.

cost /book cost (CC/BC) ratios on a pick and choose basis, as Verizon has chosen to do. The Commission finds that a methodology which applies CC/BC ratios when they are greater than one,[16] and raise the estimated cost, but which does not apply CC/BC ratios when they are less than one, and lower the estimated cost, is clearly biased and not in the public interest.

Finally, we direct Verizon's attention to the following from the FCC's *First Report and Order on the Implementation of the Local Competition Provisions of the Telephone Act of 1996*[17]:

> In dynamic competitive markets, firms take action based not on embedded costs, but on the relationship between market-determined prices and forward-looking economic costs. If market prices exceed forward-looking economic costs, new competitors will enter the market. If their forward-looking economic costs exceed market prices, new competitors will not enter the market and existing competitors may decide to leave. Prices for unbundled elements under section 251 must be based on cost under the law, and that should be read as requiring that prices be based on forward-looking economic costs. New entrants should make their decisions whether to purchase unbundled elements or to build their own facilities based on the relative economic costs of these options. By contrast, because the cost of building an element is based on forward-looking economic costs, new entrants' investment decisions would be distorted if the price of unbundled elements were based on embedded costs. [18]

The FCC went on to "reject various arguments raised by parties regarding the recovery of costs other than forward-looking economic costs in section 251(c)(2) and (c)(3) prices, including the possible recovery of: (1) embedded or accounting costs in excess of economic costs…".[19]

For the reasons stated above, we adjust Verizon's TRG Investment value of $558,417,040, found in cell F29 of Tab 3—Inputs of the *Cost Study*, by multiplying this value by the CC/BC ratio of .516 appearing in Attachment 1 Staff

---

[16] See Attachment1Staff1-2a, filed 2/27/03 (response to Staff 1-2), folder Step 3 - Make invest adjustment, column C for examples of CC/BC being greater than one.

[17] *See* In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98 (August 8, 1996).

[18] *First Report and Order* at ¶ 620.

[19] Id. at ¶ 621.

1-2A, Tab Step 3 - Make invest adjustment, cell F23. This procedure reduces the TRG Investment value from $558,417,040 to $288,143,193.

C. Number of Employees

During the hearing on August 13, 2003 we discovered that Verizon actually use one more additional employee for DUF services than was forecasted in the model submitted by Verizon.[20] To account for this, we adjusted Verizon's cost model by increasing the number of Service Analysts from 3 to 4. We made this change at the following two sections of the model: 1) Cells G17 to I17 of Tab 5.5 - CLEC SUPPORT BACKUP, and; 2) Cells F18 to H18 of Tab 4.1D CBO OPERATION-CLEC SUP.

D. Annual Charge Factors

Concerning Verizon's calculation of the Annual Charge Factors (ACFs) used in it cost study, Verizon has stated that while it was able to identify explicit expenses associated with DUF, it was unable to back these expenses out of the ACFs.[21] While we believe the impact of this shortcoming is small, we expect Verizon to make a better effort towards resolving this issue in future proceedings.

V. CONCLUSION

The cumulative impact of the adjustments to Verizon's model, as discussed above, are displayed in the following table:

Total Monthly Recurring Costs:	Verizon Proposed	Commission Adjusted
Recording / Processing Cost Per Record/Message	$0.000993	$0.000675
Data Transmission Cost Per Record/Message	$0.000017	$0.000016
Total per Billing Record Sent	$0.001010	$0.000691
Cartridge Tape Cost (Each)	$15.97	$15.97

[20]Tr. 8/13/03 at p. 38.

[21]Id. at pp. 40-44.

We order that Verizon implement the changes to its cost model as outlined above and that the adjusted rates shall be the applicable rates for the State of Maine.

O R D E R E D

Dated at Augusta, Maine, this 23rd day of January, 2004.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.